

Defence Secretary Philip Hammond MP today announced that the core committed defence equipment programme amounts to just under £152bn over ten years, against a totalled planned spend of almost £160bn. That £152bn includes, for the first time, a centrally held contingency of over £4bn.

The programme also includes an additional £8bn of funding over the next ten years which is unallocated. This means that the budget will have guaranteed headroom to respond to emerging equipment requirements. For analysis and outline of some of the major programmes going forward, and reaction from Parliament, see below.

The politics of Planning Round 12

By Nick Watts, Great North News Services

Today's announcement by Phillip Hammond that MoD has balanced its budget is not the end of the road in the department's reform process, but it is perhaps the end of the beginning. The MoD faces challenges by virtue of the nature of its business. The more so as it is currently engaged in what the language of SDSR would refer to as a medium scale enduring operation. Credit is due to "Forensic Phil" who approached the travails of the MoD in a dispassionate manner. His attitude to the department became apparent when he was questioned at his first outing at a RUSI presentation. When questioned how he would continue to deliver defence capability in an era of austerity, he replied that the MoD would simply have to learn to act like any other department, and be more efficient.

The "Black Hole" arose because under the previous government the MoD's wish list was allowed to grow without being checked. The Equipment Plan seemed to take on a life of its own. At the same time the department's budget remained static and the perceived gap in funding grew – at least on paper. Hammond's announcement will not reverse the previously announced cuts – but should stop any further cuts being necessary. All of this is premised on no further deterioration in the nation's finances arising from a crisis in the Euro zone.

Both the services and industry will now be able to work on how to equip the UK with the equipment envisioned in the Force 2020 plan. More importantly Hammond announced that there should be some spare resources available within the MoD's budget, which the department will need to protect against the depredations of HM Treasury. On the bigger political picture Hammond has brought the MoD back under control. There is still work to be done on the management of the MoD, as envisaged by the Levene review. Bernard Gray still has to get a new operating structure in place at DE&S. Both of these projects will need to be managed while manpower is being cut. Hammond's work is not yet done, but he has shown that at least he has got a handle on how the MoD works, and there are not many who can say that.

The Service Chiefs have confirmed that this fully committed core equipment programme and the

extra headroom will enable the MoD to deliver the capabilities required for Future Force 2020, as set out in the Strategic Defence and Security Review (SDSR) of 2010.

The MOD says it can now guarantee the delivery of projects for the Army, Royal Navy and Royal Air Force (some previously announced) including:

- 14 new Chinooks, Apache life-extension & Puma upgrade;
- a programme of new armoured fighting vehicles worth around £4.5bn over ten years, and a £1bn upgrade of the Warrior Armoured Fighting Vehicle;
- the building of the two Queen Elizabeth Class aircraft carriers; the remainder of the Type 45 destroyers and the new Type 26 frigates; the Astute class and Successor nuclear submarines;
- investment in new Wildcat helicopters, the Merlin upgrade programme and the assessment phase for Merlin marinisation;
- introduction into service of the Voyager Air-to-Air refueller & troop transporter, the A400M air transporter and the Air Seeker surveillance aircraft;
- an additional C17 aircraft;
- continued investment in Typhoon and JSF;
- £7bn invested in complex weapons - smart missiles and torpedos

Balancing the programme means the MoD can now confirm the following projects will also be part of the core equipment programme:

- a £4bn plus investment in Intelligence, Surveillance, Communications and Reconnaissance assets across the CIPHER, SOLOMON, CROWSNEST, DCNS, and FALCON projects;
- the outright purchase of three Offshore Patrol Vessels which are currently leased;
- capability enhancements to the Typhoon;
- a range of simulators, basing, and support equipment for the new helicopters and aircraft

The MoD will continue to invest £1 billion a year on facilities at the Atomic Weapons Establishment (AWE).

The AWE is central to the development and maintenance of the UK's nuclear capability, Trident. Scientists at the Berkshire site are involved from the initial concept and design of the warheads, through manufacture and support to their decommissioning and disposal.

The MoD has now reached an agreement with AWE Management Limited (AWEML) - the joint venture contracted to manage and operate the site in 2000 - for a further priced period of work under its existing 25-year contract.

This agreement, which will see the MoD invest £1 billion a year over the next five years, provides important further investment in skills and facilities at the company's site in Aldermaston and Burghfield, Berkshire, where more than 4,500 staff are based.

Around 40 per cent of this money will be invested in essential capital projects, including

production and research facilities. The remainder will be spent on operating and maintaining the AWE

Formed in 1998, AWEML is a joint venture between Jacobs Engineering Group, Lockheed Martin and Serco to manage AWE plc on behalf of the MOD. The current agreement came into effect in 2000.

In Parliament, the Secretary of State for Defence (Mr Philip Hammond) said :

The United Kingdom's armed forces and the Ministry of Defence exist to protect our country and its interests and provide the ultimate guarantee of its security and independence. My overriding priority as Secretary of State for Defence must be achieving success on military operations, but our defence is built on the extraordinary quality and commitment of our people, and ensuring their welfare is close behind. I am clear that when we ask the brave men and women of our armed forces to put themselves in danger to ensure our national security, we owe it to them to make sure that they are properly supported with the very best equipment we can give them to do the job.

The best way I can support our armed forces as they restructure and refocus themselves for the future is to give them the assurance of stable and well-managed budgets and the confidence that the equipment programme is affordable and deliverable. That is because the only way to ensure, in the long-term, the ability to project power, to protect our national security and to ensure that our troops have the equipment they need is to have a defence budget that is in balance. A strong, diverse economy and sound public finances are a prerequisite to being able to sustain the armed forces that our national security requires, and so correcting the disastrous fiscal deficit we inherited and returning the economy to sustainable growth are themselves strategic imperatives. Defence has, rightly, contributed to that fiscal correction,

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as well as putting its own house in order by dealing with the chaos we inherited in an equipment programme that left a yawning black hole under our armed forces.

Tough decisions have been taken, and I want to take this opportunity to pay tribute to those who have taken them: my predecessor, my right hon. Friend the Member for North Somerset (Dr Fox), who showed the courage to tackle head on some of the worst and longest-running procurement fiascos and to make agonising

choices over capabilities that Britain could not afford; the armed forces chiefs, who have grasped the challenges that the SDSR has presented and embraced the opportunity to create a sustainable foundation on which they can build for the future; and the leadership team in the MOD, who have worked tirelessly to turn this supertanker round—to tear up the old ways of doing things and to embrace a new model that will ensure that the MOD never again gets into the mess it was in by early 2010.

Thanks to all of them, and with the decision I announced to the House last week on carrier strike being the final piece of the jigsaw, I can tell the House today that, after two years' work, the black hole in the defence budget has finally been eliminated and the budget is now in balance, with a small annual reserve built in as a prudent measure to make sure that we are not blown off course by unforeseen events: a plan endorsed by the chiefs and by the Treasury. We have achieved this by facing up to the fiscal reality and taking the tough decisions that Labour shirked: reluctantly accepting smaller armed forces and redoubling our resolve to invest in the best possible equipment for them; transforming the role of the Territorial Army as the regular army gets smaller, making it an integral part of Future Force 2020; and embarking on a major restructuring of the Department and a reduction of just over a third in the civilian work force.

Those have not been easy decisions, but they have been the right ones. This has been a difficult period for all our people in the armed forces and more widely across defence. Major change, the threat of redundancy and uncertainty about the future all present challenges to confidence and morale. Reaching a balanced budget for the MOD's "planning round 12", or PR12, represents a hugely important milestone in the transformation of defence. It is a symbolic break with the failed practices of the past and a solid foundation on which to build. It starts to put the destabilising uncertainty behind us as we move forward with defence transformation.

At the heart of the plan is the defence equipment programme, which by the end of the PR12 period will account for about 45% of the total defence budget. I have seen for myself over the past seven months just how complex defence procurement is. We are developing cutting-edge technology so that our armed forces have a battle-winning edge, with projects that rank alongside the biggest being undertaken in this country today.

Although there have been widely publicised failures, there have

been unsung successes, most notably in Afghanistan, where the urgent operational requirements process funded by the Treasury has repeatedly allowed us to deliver the equipment that our armed forces need quickly and efficiently. Brigadier Patrick Sanders, who commanded 20th Armoured Brigade last year in Afghanistan, has described the equipment that his troops had as “second to none” and “the best that I’ve experienced in 27 years” in the Army. We need to build on the best elements of the UOR model to achieve that level of performance across defence as a whole. At the same time, we must learn from the failures.

Over the 10 years of PR12, we will spend almost £160 billion on new equipment and data systems, and their support, reflecting the planning assumption agreed with the Treasury of a 1% per annum real increase in the equipment and support budget from 2015. However, poor decision making and poor management have too often meant that the armed forces have not received the full benefit of all their spending.

Under the previous Government, the equipment plan became meaningless because projects were committed to it without the funding to pay for them, creating a fantasy programme. Systematic over-programming was compounded by a “conspiracy of optimism”, with officials, the armed forces and suppliers consistently planning on a best-case scenario, in the full knowledge that once a project had been committed to, they could revise up costs with little consequence. It was an overheated equipment plan, managed on a hand-to-mouth basis and driven by short-term cash, rather than long-term value. There were constant postponements and renegotiations, driving costs into projects in a self-reinforcing spiral of busted budgets and torn-up timetables. Rigid contracting meant that there was no flexibility to respond to changed threat priorities or to alternative technologies becoming available. It is our armed forces and the defence of our country that have ultimately paid the price for that mismanagement. The culture and the practice have to change.

We will move forward with a new financial discipline in the equipment plan. There will be under-programming rather than over-programming, so that we can focus on value rather than on cash management. That will give our armed forces confidence that once a project is in the programme, it is real, funded and will be delivered, so that they can plan with certainty. The core committed equipment programme, which covers investment in new equipment and data systems, and their support, amounts to just under £152 billion over 10 years, against a total planned spend of almost

£160 billion. That £152 billion includes, for the first time ever, an effective centrally held contingency reserve, determined by Bernard Gray, the new Chief of Defence Matériel, of more than £4 billion to ensure the robustness of the plan.

The plan includes 14 new Chinooks, Apache life-extension and Puma upgrade; a programme of new armoured fighting vehicles worth about £4.5 billion over 10 years, including the assessment phase of Scout; and a £1 billion upgrade of the Warrior armoured fighting vehicle. It also includes the building of the two Queen Elizabeth-class aircraft carriers, the remainder of the Type 45 destroyers, the new Type 26 frigates and the Astute-class and successor nuclear submarines. It includes investment in new Wildcat helicopters, the Merlin upgrade programme and the assessment phase of Merlin marinisation; the introduction into service of the Voyager air-to-air refueller and troop transporter, the A400M air transporter and the Air Seeker surveillance aircraft; an additional C17 strategic airlifter; continued investment in Typhoon and the joint strike fighter; and £7 billion of investment in “complex weapons”—the smart missiles and torpedoes that give our Navy, Army and Air Force their fighting edge.

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Balancing the budget allows me to include within that £152 billion core programme a £4 billion-plus investment in intelligence, surveillance, communications and reconnaissance assets across the Cipher, Solomon, Crowsnest, Defence Core Network Services and Falcon projects; the outright purchase of three offshore patrol vessels that are currently leased; capability enhancements to the Typhoon; and a range of simulators, basing and support equipment for the new helicopters and aircraft that we are introducing.

That programme represents the collective priorities of the armed forces, set out by the armed forces committee on which all the service chiefs sit. They confirm that the committed core equipment programme, together with the £8 billion of available unallocated headroom, will fund the capabilities that they require to deliver Future Force 2020 as set out in the strategic defence and security review. That £8 billion will be allocated to projects not yet in the committed core programme only at the point when they need to be committed in order to be delivered on time, and only in accordance with the military assessment of priority at

the time. No project will be allowed to be committed without a 10-year budget line to cover not only its procurement but its support costs. Not rocket science, you might think, Mr Speaker, but quite an innovation in defence procurement none the less, and individuals and contractors can expect to be held to account for the estimates on which decisions to commit to projects are based.

The Government believe that transparency is a driver of performance. I want to be as transparent as possible about the defence budget, because greater transparency will help me to drive the change that we need to see in the Ministry of Defence. However, the House will understand that some elements of the defence budget are security-sensitive and others are commercially sensitive. It is essential that we preserve our negotiating space with defence contractors without announcing all our detailed intentions in advance. So to provide the reassurance that the House will want, while protecting the commercial and security interests of defence, I have agreed with the National Audit Office that it will review the equipment plan and confirm that it is affordable. The NAO will have access to confidential, detailed information on the equipment plan that cannot be published, but once it has completed its work, we will publish its verdict on the plan together with a summary of the plan itself.

Today's announcement and the work that we are taking forward mean that for the first time in a generation the MOD not only has a balanced budget and an appropriate reserve but is putting in place the behaviour-changing incentives and structures that will keep it in balance. It means that the politicians and civil servants in the MOD can look the armed forces in the eye, in the knowledge that we are delivering them the stable platform that they need to build Future Force 2020. We are delivering them a budget agreed across Government, across the Department and by the service chiefs, and a firm baseline for the transformation that is under way to armed forces that may be smaller, but which will be adaptable, agile, equipped with the very best technology and supported by an MOD that is laser-focused on their needs. We are working alongside a defence industry that can invest with renewed confidence in an equipment plan that is actually deliverable. That represents the start of a new chapter in the long history of UK defence, and I commend this statement to the House.

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2.49 pm

Mr Jim Murphy (East Renfrewshire)

(Lab): I join the Secretary of State in offering my condolences to the families of Corporal Brent John McCarthy from the Royal Air Force and Lance Corporal Lee Thomas Davies from 1st Battalion Welsh Guards. They will be for ever missed by those who love them, and their sacrifice should always be honoured by our nation. I agree with the Secretary of State. We continue to support the mission in Afghanistan, and we all wish to see political progress there to match our force's bravery.

I thank the Secretary of State for advance copy of his statement. He might lack the passion of his predecessor, but he should not mimic his assertions. His predecessor said, about the strategic defence and security review, that defence was back on a stable footing, and at the time of the three-month review, he said:

"For the first time in a generation, the MOD will have brought its plans and budget broadly into balance".

Today we are hearing the same thing, but we will judge today's statement not on these reheated claims but on the detail published and on whether the Defence Secretary's plans provide the right balance between flexible force structures, strategic reach post-Afghanistan, strengthening alliances within NATO, support for our forces and their families, and budgetary stability.

The Defence Secretary has said that there will be no more cuts over and above those he has already announced. Let us not forget, however, that he has announced cuts up until 2020, with thousands of service personnel and civil servants yet to be sacked, £900 million of allowances still to be lost and veterans' and war widows' pensions being frozen year-on-year.

Short-term control of defence costs to support careful deficit reduction needs to be coupled with long-term reform, but the Government have been reckless where care has been essential and timid when boldness has been required—reckless because decisions on the Astute class submarines and the Trident and carrier programmes have massively increased costs, and timid because long-promised reform of Defence Equipment and Support has been stalled. Only this Government's review into speeding up defence delivery could itself be four times postponed. Hundreds of defence workers have lost their jobs, and major projects were last

year delayed by a combined 30 months and at a cost of £500 million.

Last week, the Secretary of State stumbled into three different figures on the aircraft carrier U-turn. Let us see whether he is any clearer today. In the interest of the Liberal Democrats, the Government have delayed the biggest procurement decision of them all—Trident replacement. Will he therefore tell the House how much that decision to delay will add to the total projected costs of Trident's successor? Will he also tell the House whether any cuts have been made since the three-month review and whether any programmes have been delayed to enable today's announcement?

The Secretary of State talks about balancing the books, but I also want to ask him about the balance of our forces. What will be the precise up-front costs in this Parliament of converting RAF bases to Army bases for those returning from Germany? There is also consternation in Scotland about his plans for historic Scottish regiments. Scotland has a proud history in UK armed forces that simply cannot be cast aside, so will he guarantee that the names, identity and cap badges of Scotland's regiments

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will be preserved? Failure to do so will show yet again that the Government are totally out of touch with Scotland.

We welcome the new investment, but will the Secretary of State confirm that the full cost of major projects, including the future tanker, the carrier programme, the Typhoon and the joint strike fighter fleets, have all been factored into the figures he is publishing today, and will he publish—perhaps not today but shortly—details of each programme and their costs? Ministers have committed to publishing a 10-year equipment plan. Without that, his claims today cannot be substantiated. Will he therefore honour his commitment to publish the equipment plan with its projected cost and available resource over the same period, or do his comments today about the National Audit Office override that previous commitment?

The Secretary of State has said that there is now a departmental reserve in each year. Will he guarantee that the contingency will be ring-fenced for defence?

In conclusion, Governments take the gravest decision of all by

sending our forces into harm's way. Today's statement is about the quantity, quality and cost of the equipment we provide them with. We will hold the Secretary of State to each and every one of his commitments today, because it is in the nation's interests that he gets it right; and where he does, we will support him.

Mr Hammond: They still don't get it.

Still they do not understand that a balanced budget is the essential underpinning to effective defence. Still they are in denial about the £38 billion black hole they left, even though we have the internal Labour party documents admitting that the £38 billion black hole is Labour's biggest weakness in defence. Still they appear to believe, like children in a sweetshop, that it is better to have a big programme that cannot be delivered than a smaller one that our armed forces and defence industry can rely on. Where would we be if the right hon. Gentleman was in charge? We would be right back where we were in May 2010, because he will not make the difficult decisions that support effective defence and will get the MOD back on track.

The right hon. Gentleman asked me about the process from the SDSR and the three-month exercise. It has been a long and drawn-out process, with savings made at the SDSR, further savings made in the three-month exercise to get to the position announced by my right hon. Friend the Member for North Somerset (Dr Fox)—that the defence budget was broadly in balance—and, now, the work that we have done to go the final mile, which has enabled us to say that we have a fully balanced budget.

I must correct the right hon. Gentleman on his point about pensions. Pensions are not frozen, as he very well knows, and using emotive language like that will not help him.

The right hon. Gentleman referred to the £500 million increase in the defence programme projects over the last year. What he forgot to tell the House was that in the last year of his party's Government there was a £3.3 billion increase in the equipment programme. I can also tell him, in answer to his question, that there is no delay to the Trident programme. The timetable of the Trident programme allows us to include all the critical path items in the PR12 period, and we have done so in the figures that I have announced today.

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The right hon. Gentleman asked about regimental structures in Scotland. I can say this to him: I, too, have read in a newspaper that I am determined to introduce a continental-style Army, without a regimental structure. I can say this to the House: I understand absolutely the vital role that the regimental structure plays in the British Army, and as long as I am Secretary of State for Defence, the regimental structure will remain.

The right hon. Gentleman made a fair point when he asked how, when the equipment plan in all its detail cannot be published—as it never has been published in the past—I can substantiate the statement that I have made today. I can do two things. On the one hand, I can ask the armed forces committee and the chiefs of staff to confirm that they can deliver the Future Force 2020 capability within the budget that I have announced, and they have done that. On the other hand, I can ask the National Audit Office to review the statement that I have made—the plan that we have produced—and confirm that it is deliverable within the available budgets. As I said earlier, once the National Audit Office has completed its review, we will publish the equipment plan at the same level of detail as it has been published in the past.

Finally, the right hon. Gentleman asked me whether I was confident that managing the Department's budget prudently, with in-year unallocated provision and contingency provision in the equipment plan, would not lead to a Treasury raid, in an attempt to snatch back the headroom. May I guarantee that it will be retained for use in defence? He might have noticed that my right hon. Friend the Chief Secretary to the Treasury is sitting on the Treasury Bench. He gets it—he understands that the only way in which we will be able to manage the defence budget effectively in future is to have an open and transparent relationship between the Treasury and the MOD, where we both understand the boundaries and drive the incentives that will change behaviour in that Department.

As we have taken the painful decisions in the best interests of our armed forces and of Britain's defence, we have required no lectures from the party that shirked them. As we have tackled the £38 billion black hole, we have asked for no advice from the Labour party, which has yet to take any action to deal with that black hole.

Dr Liam Fox (North Somerset)

(Con): First, may I thank my right hon. Friend for his

kind words and extend them to the rest of the ministerial team? The junior Ministers all had their share of the hard work and the difficult decisions that had to be taken to get us out of the mess that we inherited. Will my right hon. Friend reflect on the fact that we inherited from Labour not only a £38 billion black hole but a commitment to the replacement of the Trident programme that had no funding line whatever? Will he also tell us how far he has got in introducing professional procurement skills into the Ministry of Defence to enable us to deal with contracts on an equal basis with industry and thus give taxpayers better value and ensure that the kind of disasters that we faced in the past do not happen again?

Mr Hammond: My right hon. Friend is absolutely right to draw attention to one part of Labour's black hole—the unfunded Trident commitment. He might

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equally have referred to the 22 Chinook helicopters that the former Prime Minister famously announced but forgot to fund. He asks about professional skills in Defence Equipment and Support, which is a crucial part of the MOD's operation. The new Chief of Defence Matériel is drawing up a defence matériel strategy that will involve a radical change to the structure of the Defence Equipment and Support organisation. I hope to be able to make an announcement to the House on that matter before the summer recess.

Several hon.
Membersrose—

Mr Speaker: Order. There is much interest in this matter among right hon. and hon. Members. Accommodating that level of interest will require brevity in questions and answers alike.

Ms Gisela Stuart (Birmingham, Edgbaston)
(Lab): The Secretary of State was enormously helpful last Thursday when he told me that procuring an aircraft carrier was slightly more complicated than buying a bottle of milk or a box of eggs. I wonder whether he will be equally helpful today. He keeps referring to the £38 billion black hole. Will he tell us how much of that £38 billion he assesses as being due to contractual commitments and therefore outside the scope of his cuts, and how much of it as being outside those contractual

commitments?

Mr Hammond: As the hon. Lady will know, my predecessor took some difficult decisions to cancel programmes that were contracted, which incurred some costs. One of the changes that we are now making will ensure that we do not commit contractually to projects earlier than we need to, so that if the MOD needs to restructure a programme or introduce flexibility, it will be able to do so without incurring such penalties.

Mr James Arbuthnot (North East Hampshire)
(Con): The proof of this pudding will be in the eating, but I would suggest that the House should give it a wary welcome. At least we have now moved away from the position that existed at the end of the last Government, when the then Prime Minister said that there was to be no bad news and no new money. Does my right hon. Friend feel that we are really giving enough priority to defence research? The figure of 1.2% of the defence budget seems pretty low to me.

Mr Hammond: I am grateful to my right hon. Friend for his comments. Defence research and technology provide vital support to our defence effort and, after years of decline, we have guaranteed that we will not reduce any further the percentage of 1.2% of the defence budget.

Angus Robertson (Moray) (SNP):
Taxpayers in Scotland contribute more than £3.3 billion every year towards the Ministry of Defence, but only £2 billion is spent on defence in Scotland. The Secretary of State's predecessor said in evidence to the Scottish Affairs Select Committee that, between 2000 and 2010, the total reduction in service jobs was 11.6%, but that the reduction in Scotland was 27.9%. Given the disproportionate personnel cuts and the multibillion pound defence underspend in Scotland,

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will the Secretary of State take the opportunity today to rule out the prospect of any further amalgamation or disbandment of Scottish raised units?

Mr Hammond: The hon. Gentleman has clearly got the wrong end of the stick. Defence is about protecting our people. Scottish defence does not happen in Scotland: it happens under the oceans where our nuclear deterrent is on constant patrol and in

Afghanistan where our servicemen are taking risks, day-in, day-out, to prevent threats from coming to our own shores. I will tell the hon. Gentleman frankly: we are going to have a smaller Army, and we cannot have a smaller Army without making some structural changes. I will make an announcement as soon as I am able about the structure of Army 2020.

Sir Menzies Campbell (North East Fife)

(LD): May I tell my right hon. Friend that this Scottish taxpayer welcomes his statement? I hope he will excuse a moment or two of scepticism on my part, however, because those of us with long memories will have heard similar statements made from the Dispatch Box in the past—under the headings, for example, of “Options for Change” and “Frontline First”.

The true test of the quality of this statement will be the extent to which it is achieved. I am delighted to hear that he has embraced the concept of fiscal reality. I hope he will keep it firmly in mind when he comes to consider the future of the Royal Air Force at Leuchars in my constituency.

Mr Hammond: I congratulate my right hon. and learned Friend once again on mentioning RAF Leuchars. It is not just about balancing the budget. I entirely accept that he will have heard statements about reductions in expenditure and budgets before. It has to be about changing behaviour. We will not make this change sustainable unless we put in place the structures, the mechanisms and the incentives within the Department to change the way the various players operate. That is what we are determined to do.

Mr Denis MacShane (Rotherham)

(Lab): I warmly congratulate the Chief Secretary on obtaining the unconditional surrender of the Ministry of Defence across Whitehall. Has the Secretary of State seen today’s *Le Monde*, which has a whole-page article on how Britain is creating a “zizanie”—I think the English translation would be “omnishambles”—with the U-turn on the F-35s? As China flexes its muscles with the Philippines in the south Pacific sea, why will no British aircraft carrier be able to patrol at this crucial time for world history?

Mr Hammond: I am not sure whether the right hon. Gentleman was here last Thursday when I made a statement, which I hope he would regard as good news on carrier strike. I announced that the first carrier will be delivered in 2017 and that

the first aircraft will fly off it in 2018. We are embarked on the process of patching up the hole that the previous Administration left us.

Nicholas Soames (Mid Sussex)

(Con): I warmly congratulate my right hon. Friend, together with his colleagues in the Ministry of Defence—civilian, political and military—on a remarkable achievement. Will he tell us whether, in light of the decks having been cleared,

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it is his intention to start work now on the preparatory work for the next strategic defence review, which comes along much quicker than one thinks?

Mr Hammond: I can tell my right hon. Friend that work is in hand. A body within the Department is already sitting and considering issues that need to be brought to the fore and thought through for the next strategic defence review. The five-yearly cycle will allow us to look at the strategic changes during it, while making tactical decisions within the five-year period to manage the budget and the programme.

Jeremy Corbyn (Islington North)

(Lab): Now that the Secretary of State has finally got around to mentioning Trident, will he please say why he cannot give us some news in his statement on the expenditure of £1 billion on long-lead items for the reconstruction of the Trident system and the missiles that go with it, and why we are still contemplating spending £100 billion on a weapon of mass destruction that does not bring any security to this country, but merely a great deal of expenditure and danger?

Mr Hammond: The hon. Gentleman's views on this subject are very well known, and I do not share them.

Mr Charles Kennedy (Ross, Skye and

Lochaber) (LD): Will the Secretary of State clarify whether the statement can offer any long-term reassurance or will have any long-term impact on the future of the underwater training ranges at Rona and around Kyle of Lochalsh in my area? There has been a long-running uncertainty there, and it would be helpful to know whether this statement settles the matter one way or t'other.

Mr Hammond: I am afraid that that is a level of detail that, between us, the Under-Secretary of State for Defence, my hon. Friend the Member for Mid Worcestershire (Peter Luff) and I are unable to answer from the Dispatch Box, but I will write to the right hon. Gentleman later this afternoon.

Nic Dakin (Scunthorpe) (Lab):

How many direct and indirect jobs will be lost as a result of this process?

Mr Hammond: We have already announced the reductions in the size of the armed forces and a reduction in the size of the MOD civilian service. As a result of what I have announced today, there will be no additional reductions in head count. The downsizing that has already been announced is the limit of the downsizing that we need in order to deliver the programme. I can tell the hon. Gentleman, however, that there are many tens of thousands of jobs in the UK defence industries, and that by introducing a sustainable equipment programme that will give industries the confidence to invest, we will protect those jobs and technologies and help those industries to build their export markets.

Bob Stewart (Beckenham) (Con):

I welcome the Secretary of State's announcement that we are going to balance the defence budget. I am also aware that the Royal Air Force is to have Rivet Joint aircraft, which will replace the Nimrod R1. Is there any intention for us to have a maritime surveillance capability again, given that we are an island nation?

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Mr Hammond: As has been said from the Dispatch Box before, maritime surveillance from conventional aircraft is not currently funded in the programme. That is one of the capability gaps that my predecessor chose to accept, and a risk that we have chosen to manage. A number of different technologies will be available to deal with it as we approach the end of the decade. That is one of the decisions that the armed forces committee will have to make when it considers the prioritisation for the head room in the planned equipment budget.

Hugh Bayley (York Central)

(Lab): Will the Secretary of State assure the House that the budget that he has announced today will still meet the NATO

requirement for us to spend 2% of our gross domestic product on defence? Given that operations abroad will almost certainly involve allies from other NATO countries, can he tell me whether he has made any progress in persuading countries that spend less than 2% of their GDP on defence to increase their defence spending, to which he has referred in the House previously, and if so, which countries are involved?

Mr Hammond: I can assure the hon. Gentleman that our defence budget in the spending review period exceeds the 2% of GDP NATO guideline. What I said on the previous occasion, and have said publicly on a number of occasions, is that while in the medium term our NATO partners must increase their contribution to collective defence, in the short term, at a time when there is extreme fiscal pressure on nearly all the European NATO countries, it is not realistic to go around wagging the finger at them about the amount that they spend. I have chosen to focus my pitch to them on the need to render the budgets that they do have more effective by making their forces more deployable and more available to the alliance. That is the thrust of the message that I was trying to deliver in Germany the week before last.

Penny Mordaunt (Portsmouth North)

(Con): What impact does the Secretary of State expect the measures that he has announced to have on recruitment and retention in our armed forces, not only in respect of regulars but in respect of our challenging targets for the recruitment of reserves?

Mr Hammond: My hon. Friend is right to draw attention to that issue. Many people have asked me—and I have to say that I asked the question myself when I first entered the Ministry of Defence—why we are making service people redundant but are still recruiting. The answer, of course, is that because the armed forces are a bottom-fed organisation, we need to recruit even when we are reducing the overall size of forces. I hope that the greater confidence and clarity about the future will be an aid to recruitment, and I am sure that the greater role that the reserves will play in our overall force construction will be a great aid to recruitment in the Territorial Army and the air and naval reserves.

Nick Smith (Blaenau Gwent)

(Lab): The life extension of the Apache helicopters will help while we wait for our aircraft carriers to have planes. How much is being committed to that?

Mr Hammond: I am not willing to specify a precise budget. I must correct the hon. Gentleman on a point of detail: I think that the Apache was due to go out of

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service without life extension in 2025—we will have aircraft carrier capability long before that—and this programme will extend its life beyond 2025. However, I cannot give him the individual line item budget.

Dr Julian Lewis (New Forest East)

(Con): Will the balanced budget enable the previously agreed total of 25 frigates and destroyers to be maintained in the future, and will it allow the future Trident successor fleet to mount continuous at-sea deterrence, as personally favoured repeatedly by the Prime Minister in this House?

Mr Hammond: The answer to the second question is yes, the funding for the successor submarine is based on continuous at-sea deterrence. I am not sure about the 25 figure; the figure in the SDSR is 19 frigates and destroyers.

Mr Iain Wright (Hartlepool) (Lab):

The Secretary of State has mentioned long-term value and a sustainable equipment programme for our vital UK industry, but given the debacle in respect of the Royal Navy fuel tankers, for which not a single British supplier or shipyard was invited to bid for the £500 million contracts, what reassurances can he give on providing real long-term value for the UK defence industry by enhancing our British manufacturing capability as well as our military capability?

Mr Hammond: We have made it very clear that where there is a sovereign capability that needs to be retained in the UK—such as in complex warship building, aerospace technologies and submarine building—we will enter into agreements with the private companies that have that capacity in order to ensure it is sustained. The hon. Gentleman is completely wrong about the MARS—military afloat reach and sustainability—tankers, however. British companies were invited to tender and were involved in the process. In the end, none chose to submit a bid, and the only bid we received from a European company was far in excess of the winning bid, received from a South Korean company.

Mr Edward Leigh (Gainsborough)

(Con): Any objective observer would want to congratulate the Secretary of State on the rigour he has brought to his job, but does he accept that balancing the budget may not, on its own, be enough? At other times in our history, we have balanced the budget; we may have done so in the mid-1930s, but we were spending far too little on defence. Is he aware that his greatest task may lie before him: convincing the Treasury, the Cabinet and the people that we simply have to spend a greater proportion of our national wealth on defence in what is a dangerous world?

Mr Hammond: What I can say to my hon. Friend is that the chiefs of staff sitting on the armed forces committee have written to me to confirm that, with the budget we are making available, they can deliver the force construct set out in the SDSR for Future Force 2020. I agree with him on this, however: balancing the budget in itself does not solve the problem. Anybody can cut a budget. The challenge is to make sure the money that is spent is spent efficiently and effectively, getting through to the sharp end and delivering the

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military capability we need. That is why we need to change the behaviours and practices in the MOD, not just the budget.

Mr Wayne David (Caerphilly) (Lab):

Given the Government's commitment to the renewal of the Trident programme, can the Secretary of State explain the point of the Liberal Democrats' review of alternatives to Trident?

Mr Hammond: As part of the coalition agreement, we made a commitment to such a review, in parallel with committing to the long-lead items on Trident replacement, so it would not slow down the programme—to answer the question of the right hon. Member for East Renfrewshire (Mr Murphy), the shadow Secretary of State. That review of possible alternatives to a submarine-based nuclear deterrent will be completed by the end of this year and submitted to the Prime Minister and Deputy Prime Minister, and a decision will be made then.

Mark Lancaster (Milton Keynes North)

(Con): Urgent operational requirements should become a permanent fixture in the procurement process. However, while they have delivered excellent kit to our troops on the front line, they are widely regarded as offering poor value for money in the medium

term and in respect of the through-life process. Can the Secretary of State assure me that while we have an effective UOR process, it will not be used as a substitute for planned procurement?

Mr Hammond: Yes, I can reassure my hon. Friend of that. There is a perception that UORs have effectively delivered equipment far more quickly, and often far closer to the original estimated budget, than conventional procurement. We have got to see what we can learn from those processes that will translate across into the main procurement programme.

Thomas Docherty (Dunfermline and West Fife) (Lab): The Defence Secretary has today made exactly the same claims about having balanced the books as his predecessor did some 12 months ago, yet 12 months ago the ministerial team refused to give the Defence Committee a single strand of evidence. Will the Government give that evidence this time?

Mr Hammond: First, my right hon. Friend the Member for North Somerset (Dr Fox) said that he had broadly balanced the defence budget and he was correct. What we have done over the past few months is go that last mile, to be able to say that it is fully balanced over the PR12 period. As for information, I have made it clear that once the National Audit Office has completed its review, we will publish its report and a summary-level equipment plan, with the same level of detail in it as has routinely been published about the defence budget. That may not be the level of detail that the hon. Gentleman would like, but it just is not possible, for security reasons and for commercial reasons, to publish a 10-year programme in minute detail without making the situation that the MOD faces impossible.

Mr Julian Brazier (Canterbury) (Con): I congratulate my right hon. Friend and his team on a remarkable effort, which will make a considerable difference to our

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armed forces over the next decade. While he has the Chief Secretary to the Treasury sitting next to him, may I urge on him two points of detail that used to exist the last time Conservatives were in office? The first is a carry-over facility within the procurement function, so that we do not have the year-end scrabble. The other is an exemption from the burdensome European procurement regulations, which the French still enjoy.

Mr Hammond: Some defence procurement is not subject to the European procurement directive. As for the carry-over, year-end flexibility on procurement, I have had very constructive discussions with my right hon. Friend the Chief Secretary and with the finance director in the MOD, and we are satisfied with the arrangements we have in place.

Several hon.
Membersrose—

Mr Speaker: Order. Given the number of right hon. and hon. Members still seeking to catch my eye, and the fact that the debate to follow is very heavily subscribed, I repeat my exhortation to single, short supplementary questions and the Secretary of State's typically pithy replies.

Sir Bob Russell (Colchester) (LD):
Britain's national and international defence interests are not best served by having a smaller Army, a smaller Navy and a smaller Air Force. We are now told that the budget is in balance, so, looking to the home front, can the upgrade and modernisation of the family accommodation be brought forward?

Mr Hammond: Not without busting the budget again, I am afraid. There is a programme for the modernisation of accommodation, part of which is continuing. Another part of it has been put on hold until 2014-15, and I am afraid that is where it will have to stay for the moment.

Stephen Phillips (Sleaford and North Hykeham) (Con): On behalf of the regiment in which I had the honour to serve, may I join my right hon. Friend, and indeed the shadow Secretary of State, in paying tribute to Lance Corporal Davies for his sacrifice? No Government Member doubts the enormity of the £38 billion hole left by the previous Government or that it is, as the shadow Secretary of State has said, the principal weakness of the Labour Government. Will my right hon. Friend tell the House what effect promising much and delivering little has on the morale of our armed forces?

Mr Hammond: It has sapped it and undermined it.

Mike Crockart (Edinburgh West) (LD): The Secretary of State has said much today about ensuring the welfare of, and building a stable platform for, our

armed forces. One of the best ways of delivering that is by giving them certainty about where they will be based. Unfortunately, that is in short supply in Scotland, particularly in Edinburgh, so when will he deliver it?

Mr Hammond: My hon. Friend is absolutely right about that and I have acknowledged it many times: uncertainties about redundancy, about basing and about unit structures are all debilitating. We will close down

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those uncertainties as soon as we possibly can but, as I said, it will be towards the end of the year before we can make an announcement about basing.

Jessica Lee (Erewash) (Con):

Does my right hon. Friend agree that the £4 billion contingency budget for the equipment programme is particularly welcome for companies such as Chemring, in my constituency, which provides hundreds of jobs and builds fantastic, quality equipment for our armed forces? I say that because businesses require clarity in order to plan for the future, and today's statement provides that.

Mr Hammond: I am grateful to my hon. Friend for that. The knowledge that there is a £4 billion contingency budget will be hugely reassuring for the defence industry when it looks at the overall programme and decides how to invest its own money in the technologies and skills needed to deliver it. However, I urge the company in her constituency not to think that the £4 billion is there to accommodate its cost overrun.

John Glen (Salisbury) (Con): In

warmly welcoming today's announcement, may I ask the Secretary of State to go further and assure the House that when he reviews the options for the organisational model that the Chief of Defence Matériel believes will be best for the future of the Defence Equipment and Support organisation, he will challenge them robustly on their capacity to deliver real, radical organisational and cultural change in that organisation so that decisions are made in the right way in the future?

Mr Hammond: I can give my hon. Friend that assurance, but I do not underestimate the scale of the task. As DE&S is structured at the moment, we are seeking to employ

project managers to manage some of the world's largest and most complex projects and we are seeking to do it on civil service pay. That is challenging.

Oliver Colvile (Plymouth, Sutton and Devonport) (Con): I thank my right hon. Friend for what he has said and I hope that it will produce greater confidence in his negotiations with the Treasury, as it will understand exactly where the MOD budget is going. May I ask for an assurance that the nuclear deterrent will not be up for negotiation with any of the other political parties in this House?

Mr Hammond: Let me assure my hon. Friend that relationships with the Treasury have improved dramatically at a working level. My right hon. Friend the Chief Secretary and I have complete transparency on these matters and have worked together very closely to achieve this outcome. The Government are fully committed to the replacement of the Trident nuclear deterrent.

Duncan Hames (Chippenham) (LD): I welcome the Defence Secretary's decision to require an estimate of 10 years' worth of support costs before a project is committed. It makes little sense, after all, to go to a cheaper supplier of respirators, for example, only to pay more each year in servicing them. Will that open the

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door to a more innovative approach from suppliers, so that we might increasingly be procuring not just kit but in-service capability?

Mr Hammond: I am glad to tell my hon. Friend that that is already happening. We are increasingly entering into availability contracts where the whole-life costs of the project are taken into account and capability is delivered in the most efficient way.

Christopher Pincher (Tamworth) (Con): My right hon. Friend's announcement is good news for the taxpayer and will give certainty to our armed forces personnel. Will he say a little more about how it will build certainty among the lower reaches of the procurement supply chain—the small and medium-sized enterprises—who have suffered historically from budgetary uncertainty and do not have the luxury of waiting around for Government and prime contractor

decisions?

Mr Hammond: We are committed to supporting the role of SMEs in the supply chain. I visited some SMEs involved in defence equipment very recently and they are among the most innovative and flexible parts of the industry. The changes we have already announced will assist them and I have pledged to look at how we can give them greater certainty that when they invest their own money in developing technologies, we can give them the highest possible level of assurance in advance that they will be able to export those technologies and not find that they have developed a white elephant.

Sajid Javid (Bromsgrove) (Con):

I warmly welcome the statement by my right hon. Friend and congratulate him and his team on cleaning up the mess left by the Labour party. With respect to that mess, has he received an apology from that party?

Mr Hammond: Very far from it.

Stephen Gilbert (St Austell and Newquay)

(LD): Will my right hon. Friend confirm that the £5 billion-worth of funding for the Atomic Weapons Establishment that has been announced today in a written ministerial statement is not new money and does not represent an increased financial commitment to the Trident successor programme?

Mr Hammond: I can confirm that the new contract for the Atomic Weapons Establishment, announced today, is in fact a rolling over of the existing contract at a lower price for the next period.

Andrew Selous (South West Bedfordshire)

(Con): Kuwait compensated this country for the cost of its liberation. Libya is a very wealthy country. Has any similar offer been made?

Mr Hammond: Not to my knowledge.

James Morris (Halesowen and Rowley

Regis) (Con): Does the Secretary of State agree that a balanced defence budget combined with sensible procurement in defence are central to protecting Britain's national interests and allowing the country to make the difficult strategic choices we need to make in a global world?

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Mr Hammond: Absolutely. Understanding the cost of what we need to procure and ensuring that what we announce we will procure can genuinely be delivered are central to giving our armed forces the certainty to plan for the future.

Harriett Baldwin (West Worcestershire)

(Con): In reaching this historic milestone—eliminating the £38 billion black hole—did the Secretary of State receive any submissions at all from the Labour party?

Mr Hammond: That is an interesting question, because the Labour party's position is to deny that there was a £38 billion black hole. It is rather helpful to us that we have in our possession a letter from the right hon. Member for East Renfrewshire to the Leader of the Opposition, setting out his view that the £38 billion black hole was Labour's greatest weakness and vulnerability when it came to defence..

Formed in 1998, AWEML is a joint venture between Jacobs Engineering Group, Lockheed Martin and Serco to manage AWE plc on behalf of the MOD. The current agreement came into effect in 2000.